

**AUDITING PROCEDURES REPORT**

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>MANCHESTER DISTRICT LIBRARY</b>	County <b>WASHTENAW</b>
Audit Date <b>5/31/05</b>	Opinion Date <b>10/21/05</b>	Date Accountant Report Submitted to State: <b>11/15/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

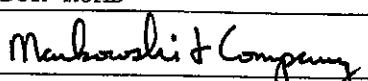
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>MARKOWSKI &amp; COMPANY, CPA'S</b>			
Street Address <b>2880 SPRING ARBOR ROAD</b>	City <b>JACKSON</b>	State <b>MI</b>	ZIP <b>49203</b>
Accountant Signature 			

**MANCHESTER DISTRICT LIBRARY**

**FINANCIAL STATEMENTS**

**MAY 31, 2005**

**MANCHESTER DISTRICT LIBRARY**

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# MARKOWSKI & COMPANY

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AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS  
ESTATE PLANNING COUNCIL  
OF SOUTH CENTRAL MICHIGAN

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Manchester District Library  
Manchester, Michigan

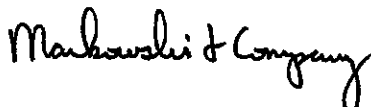
We have audited the accompanying financial statements of the **MANCHESTER DISTRICT LIBRARY**, as of and for the year ended May 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Manchester District Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Manchester District Library as of May 31, 2005, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

As described in Note 1, the Library adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Nos. 34, 37, and 38 and GASB Interpretation No. 6 as of and for the year ended May 31, 2005. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis, required supplementary information, and additional information presented on pages 2-5, 15-16 and 17 respectively are not a required part of the basic financial statements but are supplementary financial information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



MARKOWSKI & COMPANY CPAs  
Jackson, Michigan  
October 21, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Management's Discussion and Analysis**

### **Using this Annual Report**

As management of the Manchester District Library, we offer the readers of these financial statements this narrative overview and analysis of the financial activities of the Manchester District Library for the fiscal year ended May 31, 2005.

The Manchester District Library is implementing the new Governmental Accounting Standards Board Statement No. 34 reporting requirement for the first time this year. Known as GASB 34, the new reporting requirement includes management's discussion and analysis of the Library's finances. On a go forward basis this should provide a comparative analysis between the current year and prior year financial information. However, as this is the first year of implementation, the prior year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board has recognized this, and does not require comparative analysis in the first year of implementation.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements.

### **Manchester District Library as a Whole**

The Library has net assets of \$413,743. A substantial portion of the Library's net assets (16%) reflects its investment in capital assets (e.g. books, leasehold improvements, machinery and equipment and furniture and fixtures). The Library uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending.

Net assets increased by \$77,327 or 23% during the year ended May 31, 2005. Revenues increased by \$8,904 or 3%, this was a result primarily of increased property tax revenues.

One of the quickest ways to see if a Library's use has improved is to track circulation figures, or the number of items checked out and renewed. For the calendar year 2004 the Library circulated 57,425 items, as of the date of this discussion, the Library had already circulated 50,745 items, an increase of 14% over the same period last year. We anticipate checking out more than 62,000 books, movies, audio books and music CDs for calendar year 2005.

In 2004-2005 the Library improved its collection by selecting a mix of both popular and useful items, adding DVD-format movies to the collection, and listening to patron requests for more audio books. Patrons also now have access to an on-line catalog accessing more than 30 libraries and allowing them to place holds on items not owned at the Manchester District Library. Thanks to conscientious collection development and the availability of items through interlibrary loan, the Library's circulation rate has grown steadily and we are now at a point where it is advisable to have two staff persons working at the circulation desk at all hours the Library is open. This has also led to a slight increase in the amount spent on salaries.

## Management's Discussion and Analysis

### Governmental Activities

The Library does not have many options to increase revenue. The Library's total government activity revenues were \$353,024 this year. Property taxes were \$314,129 or 89% of the total revenues. Property tax increases are controlled by various State laws that restrict the increase in taxable values to amounts at or below the rate of inflation. State revenue sharing and penal fines were \$19,898 or 6% of total governmental revenue. The remaining 5% of revenue is comprised of contributions and grants, fines and fees and investment income. The Library's budget is expended largely on salaries and benefits with expenditures of \$141,244 or 51%, and rent and utilities on its facilities of \$42,918 or 16%. The remaining budget is being dedicated to other functions such as Library programs, operating supplies and interlibrary automated services. The Library also sent \$22,102 or 7% of its property tax revenues to another Library as part of a service agreement.

In a condensed format, the following table shows Net Assets and Change in Net Assets as of May 31, 2005:

	Governmental Activities
	2005
Assets	\$ 421,815
Liabilities	8,072
Net Assets	
Invested in Capital Assets, net	65,490
Restricted	5,655
Unrestricted	342,598
Total Net Assets	\$ 413,743
Revenues	
Property taxes	\$ 314,129
State Shared Revenues	6,073
Fines and fees	5,966
Penal fines	13,825
Investment income	4,441
Contributions and grants	5,915
Other revenues	2,675
Total revenues	353,024
Expenditures	
Culture and recreation	275,697
Change in Net Assets	\$ 77,327

## Management's Discussion and Analysis

### Government Activities (continued)

Library expenditures this year showed some differences from the previous year. One of the most noticeable was the increase in the amount spent on salaries, which is due almost entirely to the hiring of a professional Youth Services Librarian. The position had not been filled consistently in the past, but growing Library patronage and demand for service required that we make full use of the funds budgeted for this position. The Youth Services Librarian, a professional librarian with a Masters in Library Sciences, works 24 hours per week planning and holding story times, craft programs, and other events for children, planning and running the summer and winter reading program, selecting and ordering materials for the children's and young adult collections, and otherwise assisting the running of the Library.

### The Library's Fund

The fund financial statements provide a more detailed analysis of the Libraries operations, which is focused primarily on the current use of available resources.

The General Fund relates to the general governmental activities of the Library, which are financed by property tax levies, by distribution of State Shared revenues, penal fines and from fees charged. The General Fund's fund balance increased \$17,487 largely due to increased property tax revenues. Total expenditures in the General Fund were \$335,537 this year, including salaries and benefits of \$141,244 or 42%, and books and related materials of \$45,364 or 14%.

### General Fund Budgetary Highlights

The original budget adopted for the Libraries General Fund projected a \$14,000 decrease in fund balance. As the year progressed, and actual events took place an amended budget was adopted to reflect the changing financial picture.

The final General Fund budget projected a \$15,804 decrease in fund balance as changes were made as needed. Actual results ended with an increase of \$17,487 in fund balance.

### Capital Asset and Debt Administration

At the end of the May 31, 2005 fiscal year, the Library had \$65,490 invested in its capital assets, net of accumulated depreciation.

A summary of capital assets follows:

	(Net of Accumulated Depreciation)
Leasehold improvements	\$ 2,024
Furniture and fixtures	18,207
Equipment	7,313
Books	25,985
Audio books	7,053
Movies and CD's	4,908
	<hr/>
\$	65,490

At the end of the year the Library had no debt outstanding.



## **Management's Discussion and Analysis**

### **Economic Factors and Next Year's Budget**

Library staff has worked hard to improve library services. A year ago the Library offered two pre-school story times a week. Now the Library has a lapsit and preschool story time each week, an evening family story time each month, and a variety of special programs throughout the year. Summer and winter reading programs continue to encourage kids and families to read for fun, and special occasions like National Library Week and Teen Read Week often include presentations or performances by local artists and organizations.

The Library's use has been growing and changing a great deal over recent years, a trend we expect to continue. We look forward to the challenges of the next year and reporting even greater growth in the future.

### **Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show our accountability for the money received. If you have questions about this report, or would like additional information, we welcome you to contact the Library's Director at 912 City Road (PO Box 540), Manchester, Michigan 48158.

## **FINANCIAL STATEMENTS**

**MANCHESTER DISTRICT LIBRARY**  
**GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS**  
MAY 31, 2005

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF NET ASSETS
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 334,033	\$ -	\$ 334,033
Investments	5,656	-	5,656
Property taxes receivable	13,386	-	13,386
Prepaid rent	3,250	-	3,250
Capital assets, net	-	65,490 (a)	65,490
	<hr/>	<hr/>	<hr/>
Total assets	\$ 356,325	\$ 65,490	\$ 421,815
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES:</b>			
Accounts payable	\$ 2,600	\$ -	2,600
Accrued liabilities	-	-	-
Accrued payroll	5,472	-	5,472
Deferred property taxes	-	-	-
Deferred revenue	-	-	-
Noncurrent liabilities -			
Compensated absences	-	-	-
Total liabilities	8,072	-	8,072
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES:</b>			
Reserved	5,655		
Unreserved/Undesignated	342,598		
Total fund balance	348,253		
	<hr/>		
Total liabilities and fund balance	\$ 356,325		
	<hr/>		
<b>NET ASSETS:</b>			
Invested in capital assets			65,490
Restricted			5,655
Unrestricted			342,598
Total net assets			413,743
			<hr/>

(a) Capital assets are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the government-wide statement of net assets.

The accompanying notes are an integral part of these financial statements.

**MANCHESTER DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MAY 31, 2005**

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF NET ASSETS
REVENUES			
Property taxes	\$ 314,129	\$ -	\$ 314,129
State shared revenues	6,073	-	6,073
Fines and fees	5,966	-	5,966
Penal fines	13,825	-	13,825
Investment income	4,441	-	4,441
Contributions and grants	5,915	-	5,915
Other revenues	2,675	-	2,675
Total revenues	<u>353,024</u>	<u>-</u>	<u>353,024</u>
EXPENDITURES			
Culture and recreation	<u>335,537</u>	<u>(59,840) (a)</u>	<u>275,697</u>
EXCESS OF REVENUE OVER EXPENDITURES	17,487	59,840	77,327
FUND BALANCES, BEGINNING OF YEAR	<u>330,766</u>	<u>5,650</u>	<u>336,416</u>
FUND BALANCES, END OF YEAR	<u>\$ 348,253</u>	<u>\$ 65,490</u>	<u>\$ 413,743</u>

(a) Capital outlays are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the statement of activities. Depreciation for the year ended May 31, 2005 was \$6,780. Capital outlays capitalized were \$66,620.

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**MANCHESTER DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Manchester District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Manchester District Library:

**A. REPORTING ENTITY**

The Manchester District Library (the "District") was formed May 22, 2000 by four participating municipalities, which include the Village of Manchester, the Townships of Bridgewater, Freedom and Manchester, under the District Library Establishment Act of 1989, PA 24.

The District has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

**B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Library.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to users or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**MANCHESTER DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

The Library reports the following major governmental fund:

**General Fund**

The General Fund is the general operating fund of the District. It is used to account for all financial resources.

**D: ASSETS, LIABILITIES, AND NET ASSETS**

**Bank Deposits and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables**

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

**Restricted Assets**

Restricted assets consist of cash and investments that have been restricted by the donor at the date of the gift.

**Capital Assets**

Capital assets, which include books and related materials, property and equipment, are defined by the Library as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. (Computers or property and equipment purchased in groups are combined for the purpose of the capital threshold amount.)

**Compensated Absences**

It is the Library's policy to permit the director to accumulate earned but unused sick pay benefits. All sick pay is accrued when incurred in the Statement of Net Assets.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**MANCHESTER DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**E. ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is at the line item.

Encumbrance accounting is employed in the government fund. Encumbrances (e.g, purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year ended May 31, 2005, the District incurred expenditures in the General Fund which were in excess of the amounts appropriated. The variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Books	\$ 27,250	\$ 29,361	\$ (2,111)

**NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash, cash equivalents, and investments of the District can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are in one local bank with accounts in its name.

These surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;
- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers' acceptances of United States banks;



**MANCHESTER DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

(6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;

(7) Obligations described in (1) through (6) as named above is purchased through an interlocal agreement under the Urban Cooperation Act of 1967;

(8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982;

(9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the District's cash deposits are as follows:

<u><b>Deposits</b></u>	<u><b>Carrying Amount</b></u>
Imprest cash	\$ 168
Insured (FDIC)	100,000
Uninsured	<u>233,865</u>
	<u><u>\$ 334,033</u></u>

The District's deposits are in accordance with statutory authority.

The District's investments consist of a single certificate of deposit with a maturity of greater than 90 days. GASB Statement #3 risk disclosures for the District's investments are as follows:

<u><b>Investment Type</b></u>	<u><b>Total Market Value</b></u>	<u><b>Total Cost</b></u>
Investment - Certificate of Deposit	<u>\$ 5,656</u>	<u>\$ 5,656</u>

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Library minimizes this risk by investing in shorter term securities and holding them to maturity.

**MANCHESTER DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**Concentration of Credit Risk**

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. 100% percent of the Library's investments were invested in a single certificate of deposit with a maturity of less than one year.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized; collateralized with securities held by the pledging financial institution; or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

The custodial credit risk for investments is that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Library will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Library's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: Michigan law (MCL 129.33) requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by public agencies.

**NOTE 4: PROPERTY TAXES**

Property tax revenues shown in the General Fund reflect the 2004 District levy of 1.05 mills on the assessed valuation of property located in the District as of the preceding December 31st. Assessed values are established annually by the county and are equalized by the State at an estimated 50% of current market value.

The 2004 levy covers the District's fiscal year of June 1, 2004 to May 31, 2005. The 2004 tax levy became a lien on properties on December 1, 2004, and was substantially collected in early 2005. Taxes became delinquent on March 1, 2005.

**MANCHESTER DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5: CAPITAL ASSETS**

Capital assets, which include property, equipment and books and related materials, are depreciated using the straight-line method over the following useful lives:

Books	3 to 5 years
Audio Visual	3 years
Furniture and Fixtures	5 to 7 years
Equipment	5 to 10 years
Building Improvements	15 to 30 years

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Being Depreciated:				
Leasehold improvements	\$ -	\$ 2,124	\$ -	\$ 2,124
Furniture and fixtures	5,650	13,417	-	19,067
Equipment	-	7,991	-	7,991
Books	-	29,361	-	29,361
Audio books	-	7,837	-	7,837
Movies and CD's	-	5,890	-	5,890
Subtotal	<u>5,650</u>	<u>66,620</u>	<u>-</u>	<u>72,270</u>
Less Accumulated Depreciation for:				
Leasehold improvements	-	101	-	101
Furniture and fixtures	-	860	-	860
Equipment	-	678	-	678
Books	-	3,376	-	3,376
Audio books	-	784	-	784
Movies and CD's	-	981	-	981
Subtotal	<u>-</u>	<u>6,780</u>	<u>-</u>	<u>6,780</u>
Net Capital Assets Being Depreciated	<u>\$ 5,650</u>	<u>\$ 59,840</u>	<u>\$ -</u>	<u>\$ 65,490</u>

**NOTE 6: PENSION PLAN**

The District contributes to a defined contribution pension plan which covers the Director. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to a participant's account and the returns on investments of these contributions. Contributions made by the District vest immediately, the district contributes 10% of the Library Director's gross earnings to the pension plan.

During the year ending May 31, 2005, the District's required contributions amounted to \$4,522.

**MANCHESTER DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7: RENTS**

The District Library signed a shared use agreement with the Village of Manchester for the use of Library facilities. The current agreement expired on May 31, 2005, with the Library having the option to extend this term to December 31, 2005; currently the Library is negotiating an extension.

**NOTE 8: RESERVED FUND BALANCE/RESTRICTED NET ASSETS**

The amounts reported in the Statement of Net Assets identified as restricted net assets are comprised of the following:

Restricted for donor imposed restrictions	\$ <u>5,655</u>
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The amounts reported in the Governmental Funds Balance Sheet as reserved fund balance are comprised of the following:

Reserved for donor imposed restrictions	\$ <u>5,655</u>
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**NOTE 9: RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to manage these risks.

**NOTE 10: SUBSEQUENT EVENTS**

The Library renewed a lease agreement with the Village of Manchester on October 1, 2005 for a ten year period commencing on October 1, 2005 and ending May 31, 2015, with the District having the option to extend this term to December 31, 2015.

During the term of the lease, the Library will pay rent in the sum of \$3,241.33 monthly. The Library will also pay a utility fee in the sum of \$900.00 monthly. The utility fee will be reviewed annually. If the fees exceed the amounts paid by the Village, the excess shall be credited against successive sums due. If the fees were less, the Library shall reimburse the Village for those sums. Utility fees for each successive year shall be adjusted annually to reflect the Village's projected actual expenses for the following year. Unless otherwise agreed by the parties, the sums to be paid by the Library shall be 33% of the total utility bills.

During the term of this agreement the Library shall pay the Village each month a common area maintenance fee of \$.25 per square foot for updating common areas and maintaining the existing structure. Square footage for the fee is calculated using the square footage of 5,984. The sum to be paid by the Library shall be determined based on the percentage of space occupied by the Library to the total occupancy currently at 33%.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MANCHESTER DISTRICT LIBRARY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED MAY 31, 2005**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Beginning of Year Fund Balance	\$ 267,965	\$ 330,766	\$ 330,766	-
Resources (Inflows)				
Property taxes	315,300	315,300	314,129	(1,171)
State shared revenues	5,800	5,800	6,073	273
Fines and fees	3,800	3,800	5,966	2,166
Penal fines	12,000	12,000	13,825	1,825
Investment income	2,750	2,750	4,441	1,691
Contributions and grants	19,200	19,200	5,915	(13,285)
Other revenues	2,700	2,700	2,675	(25)
Contingency	16,000	16,000	-	(16,000)
Amounts available for appropriation	<u>645,515</u>	<u>708,316</u>	<u>683,790</u>	<u>(24,526)</u>
Charges to Appropriations (Outflows)				
Salaries and wages	126,500	126,500	121,704	4,796
Social security	10,400	10,400	9,400	1,000
Health insurance	5,650	5,650	5,618	32
Retirement contribution	5,400	5,400	4,522	878
Books	27,250	27,250	29,361	(2,111)
Periodicals	3,000	3,000	2,276	724
Audio-visual	13,900	13,900	13,727	173
Automation	18,000	18,685	18,681	4
Contracted services:				
Contract labor	7,750	7,750	2,383	5,367
Auditing services	3,000	3,000	2,975	25
Accounting	1,300	1,300	824	476
Legal fees	750	900	899	1
Contracts-Clinton Library	21,500	22,102	22,102	-
Professional memberships and dues	800	800	601	199
Postage	4,000	2,398	1,420	978
Telephone	3,000	3,000	1,939	1,061
Transportation	1,500	780	465	315
Rent	31,800	31,800	31,800	-
Insurance	3,300	3,454	3,454	-
Utilities	11,000	11,720	11,118	602
Coop State aid	5,800	5,800	3,038	2,762
Internet lines	6,700	6,015	5,652	363
Subtotal	<u>312,300</u>	<u>311,604</u>	<u>293,959</u>	<u>17,645</u>

**MANCHESTER DISTRICT LIBRARY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED MAY 31, 2005**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Charges to Appropriations-Continued				
Programs	3,000	3,000	2,585	415
General operating supplies	29,000	31,500	13,791	17,709
Staff education	2,000	2,000	1,627	373
Refunds	500	500	43	457
Contingency	2,000	196	-	196
Capital outlay-Leasehold improvements	2,250	2,250	2,124	126
Capital outlay-Equipment	10,500	10,500	7,991	2,509
Capital outlay-Furniture and fixtures	16,000	16,000	13,417	2,583
Total Charges to Appropriations	377,550	377,550	335,537	42,013
Budgetary Fund Balance-May 31	\$ 267,965	\$ 330,766	\$ 348,253	\$ 17,487

## **ADDITIONAL INFORMATION**



**MANCHESTER DISTRICT LIBRARY**  
**STATEMENT OF ACTIVITIES - DETAIL**  
**FOR THE YEAR ENDED MAY 31, 2005**

**EXPENSES:**

Salaries and wages	\$ 121,704
Social security	9,400
Health insurance	5,618
Retirement contribution	4,522
Periodicals	2,276
Automation	18,681
Contracted services:	
Contract labor	2,383
Auditing services	2,975
Accounting	824
Legal fees	899
Contracts-Clinton Library	22,102
Professional memberships and dues	601
Postage	1,420
Telephone	1,939
Transportation	465
Rent	31,800
Insurance	3,454
Utilities	11,118
Coop State aid	3,038
Internet lines	5,652
Programs	2,585
General operating supplies	13,791
Staff education	1,627
Refunds	43
Depreciation	6,780
Total expenditures	<u>275,697</u>

**REVENUE:**

Property taxes	314,129
State shared revenues	6,073
Fines and fees	5,966
Penal fines	13,825
Investment income	4,441
Contributions and grants	5,915
Other revenues	2,675
Total revenues	<u>353,024</u>

Excess of Revenues Over (Under) Expenditures	77,327
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Net Assets - Beginning	<u>335,851</u>
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Net Assets - Ending	<u>\$ 413,178</u>
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The accompanying notes are an integral part of these financial statements.

# MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD

JACKSON, MICHIGAN 49203

PHONE (517) 782-9351

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K. LAVERNE MARKOWSKI, C.P.A.  
RONALD L. MARKOWSKI, C.P.A.  
DOUGLAS E. ATKINS, C.P.A.

**MEMBERS:**  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS  
ESTATE PLANNING COUNCIL  
OF SOUTH CENTRAL MICHIGAN

October 21, 2005

To the Board of Trustees  
Manchester District Library

We have audited the general purpose financial statements of Manchester District Library for the year ended May 31, 2005, and have issued our report thereon dated October 21, 2005. Professional standards require that we provided you with the following information related to our audit.

## **Our responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter dated September 26, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Manchester District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

## **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Manchester District Library are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended May 31, 2005. We noted no transactions entered into by Manchester District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by Manchester District Library that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on Manchester District Library's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Manchester District Library's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Trustees  
Manchester District Library  
Page Three

#### **Difficulties Encountered in Performing the Audit**

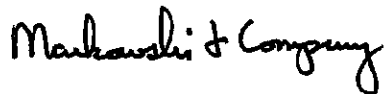
We encountered no significant difficulties in dealing with management in performing our audit.

#### **Comments and Recommendations**

During our audit we did not discover any material weaknesses in the Library's internal control system design or operation, other than the lack of segregation of duties. We did encounter certain items which we believe warrant the Board's attention. These items are discussed in the attached memorandum of comments and recommendations.

This information is intended solely for the use of the Board of Trustees and management of Manchester District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Markowski & Company".

MARKOWSKI & COMPANY, CPAs

**MANCHESTER DISTRICT LIBRARY**  
**MEMORANDUM OF COMMENTS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED MAY 31, 2005**

**SEGREGATION OF DUTIES**

Because of the limited size of the Manchester District Library's accounting staff, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Library. Library management needs to continue to exercise appropriate management oversight to help compensate for the lack of staff. The only corrective action would be to hire additional staff, which is not practical.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. As detailed in Note 2 of the financial statements the Library incurred a single expenditure in excess of amounts appropriated in one area. The Library does an excellent job in monitoring and amending the organizations budget. The amount was minor and insignificant.

We recommend that the Library continue to monitor and amend the budget as necessary.